

TIF 101

A Brief Overview of Tax Increment Financing in Illinois

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The Municipal Challenge

- Underperforming Assets: What is a town to do?
- Public Desire: Encourage economic growth and redevelop declining areas.
- Development Limitation: Fewer development tools and financial assets.
- Tax Increment Financing (TIF): A tool intended to help address this task.

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TIF Is Not New or Unique to Illinois

- TIF first used in California in 1950s.
- Now 49 States and DC allow TIF in some form.
- Illinois has 30 years of experience with TIF.
  - **392 TIF Communities in Illinois (IDCEO, 8/24/06)**
  - **1,046 TIF Redevelopment Project Areas, "TIF districts".**
  - **From the largest communities to some of the smallest.**
  - **Urban and suburban locations as well as rural.**

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The Easy Part: TIF In Concept

- **In Illinois, primarily based upon property value.**
  - Some older TIFs also provide Sales and/or Utility tax increment, but this ended in late 1980's and is no longer allowable.
- **Investments that increase property value also increase property tax revenue.**
- **This increased revenue can be recaptured for re-investment.**
- **With the intent to create a "Vital Cycle".**
- **Not a tax increase, not an abatement.**

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TIF In Illinois Law

Now We Get More Complicated!

- Tax Increment Allocation Redevelopment Act (65 ILCS 5/74.4). The "TIF Act". Primary legislation used.
- Industrial Jobs Recovery Law (65 ILCS 5/74.6). For environmentally contaminated areas with vacant industrial sites.
- County Economic Development Project Area Property Tax Allocation Act (55 ILCS 85 & 55 ILCS 90). County TIF.
- Economic Development Project Area Tax Increment Allocation Act of 1995 (65 ILCS 110). Closed military bases.

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How TIF Is Intended to Work

- Establishment of a "TIF Redevelopment Project Area" in a municipality.
- Establishment of the "Base".
- Growth in the value of the property over the Base generates the "Increment".
- Increment is used to make additional investments in the Project Area.
- Creating a Vital Cycle.

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Eligibility Requirements for TIF

- Identification of the area (minimum 1.5 acres).
- "Blighting" requirements are met: documented, meaningful & reasonably distributed in the area. Need not be found on every parcel in the area.
- "But For" requirement: "But for" the public investment the area will not improve on its own. This, along with blight, demonstrates public purpose.

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"Types" of TIFs Under TIF Act

- Four categories & 'blighting' requirements:
  - For developed, "improved", property: 5 of 13 'blighting' factors noted in the TIF Act must be identified. Most often used category.
  - For undeveloped property: 2 of 6 factors from a first group, or 1 of 6 from a second.
  - For conservation areas: 3 of 13 factors and 50% or more of the structures are 35 years or older.
  - For industrial park conservation areas, must be "labor surplus municipality", contiguous to blight, annexed before report, and zoned for industrial use prior to designation. Least often used.

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Blighting Factors: Improved Area

- Dilapidation.
- Obsolescence.
- Deterioration.
- Presence of structures below minimum code standards.
- Illegal use of individual structures.
- Excessive vacancies.
- Lack of ventilation, light or sanitary facilities.
- Inadequate utilities.
- Excessive land coverage and overcrowding of structures and community facilities.
- Deleterious land use or layout.
- Environmental clean-up.
- Lack of community planning.
- Decline in total equalized assed value 3 of last 5 years.

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Blighting Factors: Undeveloped

First Group: 2 Required

- Obsolete platting.
- Diversity of ownership of parcels.
- Tax and special assessment delinquencies.
- Deterioration of structures or site improvements.
- Need for environmental remediation.
- Decline in equalized assessed value 3 of last 5 years.

Second Group: 1 Required

- Area has one or more unused quarries, mines, or strip mine ponds.
- Unused rail yards, rail tracks or railroad rights-of-way.
- Subject to chronic flooding.
- Unused or illegal disposal sites.
- Qualified as a blighted improved area immediately prior to becoming vacant.

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Other Requirements for TIF

- Feasibility Study (required if more than 75 occupied residential units or more than 9 relocations). Is TIF appropriate financing mechanism?
- Redevelopment Plan and Program.
- Housing Impact Study.
- Notification of property owners.
- Interested Parties Registry.
- Joint Review Board review and opinion.
- Publication of notices and public hearing.
- Public ordinance.

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Planning a TIF:
The Redevelopment Plan

- A description of boundaries.
- Why the area needs redevelopment.
- Documentation of "But For".
- Redevelopment goals and objectives: Uses of funds.
- Explanation of how land will be used.
- Budget for life of TIF, including total TIF eligible costs.
- Evaluation of fiscal and programmatic impact on taxing bodies.
- Description of process to amend plan.
- Statement of conformance with comprehensive plan.
- Timetable for redevelopment.

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Types of Eligible Costs

- The administration of the TIF.
- Property acquisition.
- Rehabilitation or renovation of existing public and private buildings.
- Construction of public works or improvements.
- Job training.
- Relocation.
- Financing costs, including interest assistance.
- Studies, surveys and plans.
- Marketing sites within the TIF.
- Professional services.
- Demolition and site preparation.
- Day care (municipalities over 100,000).

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Some of the Restrictions

- TIF revenues remain and are used in the TIF, though adjoining TIFs may transfer – “port” – funds.
- New private construction not allowed in most cases.
- Development of vacant land for a golf course, clubhouse and related structures not allowed
- Public land for camping and hunting, or nature preserves not allowed.
- Some limits on consultants (no payment based upon percent of increment, contract for no more than 3 years).
- Some new municipal public buildings not allowed.
- General marketing not allowed.
- “Make Whole” agreements not allowed. All taxing bodies must share in any “surplus”.
- Limited to 23 years; possibility of extension by act of Legislature.

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Typical TIF Projects

- Redevelopment of substandard, obsolete or vacant buildings.
- Financing general public infrastructure improvements.
- Development of residential housing in areas of need.
- Cleaning up polluted areas.
- Improving the viability of downtown business districts.
- Providing infrastructure to develop a site for new commercial and industrial uses.
- Rehabilitating historic properties.

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Approaches to Financing

- Borrowing → Quicker start, greater risk.
  - By the municipality.
  - By the developer.
- "Pay as you go" → Slower start, lower risk.

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Operations
Managing the TIF

- Audit.
- Annual Report.
- Annual Joint Review Board meetings.
- Establish Interested Parties Registry.
- Development Agreements.
  - "But For".
  - Prevailing wage.
- Relationship to Enterprise Zones.
- Conflict of Interest.
- Surplus.
- Project close-out.

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Impact on Other Taxing Bodies

- If requirements, particularly "But For", are responsibly met, the expectation is little or no impact.
  - Realize that the nature of area constitutes a real loss.
  - Redevelopment has spill-over benefits.
  - Recent research in Illinois indicates limited impact.
- Taxing bodies get full fruits of the investment at the end of the period.
- State education finance formula provides some safe haven for school districts.
- TIF Act allows – and in some cases requires – assistance to taxing bodies.
- Assistance can be provided to taxing bodies through revenue surplus mechanisms, but all taxing bodies must benefit.

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For More Information

- This is but a brief overview, <u>strongly</u> consider professional assistance.
- Other information sources:
  - Illinois Tax Increment Association (www.illinois-tif.com).
  - Illinois Department of Commerce and Economic Opportunity.

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